



Housing *Choice* Voucher Homeownership Program

Legislative History

- Housing and Community Development Act of 1992 created Section 8(y) of the United States Housing Act of 1937

Legislative History

- **Section 555 of the Public Housing Reform act of 1998- Congress amends Section 8 (y)**
- **Proposed Rule published on April 30, 1999- Final rule published on September 12, 2000 (24 CFR Parts 5, 903 and 982); Latest amendment to final rule was published on October 18, 2002 and effective November 18, 2002 (24 CFR 982).**

Legislative History

- **Demonstration Projects funded in 1999**
- **Demonstration Projects had real success stories by 2001-2002**

Housing Choice Voucher-HOMEOWNERSHIP

Basic concept -- Instead of using voucher subsidy to help family with rent,

Voucher Homeownership

- PHA option – PHA has choice to offer or not offer homeownership option as part of their voucher program
- PHA receives no separate or additional funding from HUD
- PHA implements by revising PHA Annual Plan and Administrative Plan

Family Eligibility For Homeownership Option

- Current Voucher program participant or eligible for admission to the housing choice voucher program
- PHA may not set aside program funding from special housing types or require applicant to use voucher for particular housing type
- May not maintain separate waiting list or provide selection preference for applicants who agree to use voucher for homeownership

First-time Homeowner

- No family member owned any present ownership interest in a residence of any family member during last 3 years (except for single parent or displaced homemaker who, while married, owned a home with spouse or resided in home owned by spouse)
- Cooperative member
- Family includes person with disability, PHA determines use of homeownership option necessary as reasonable accommodation

Family Self-Sufficiency Program (FSS)

- PHAs may give priority for Homeownership participation to families in their FSS Program
- These families typically have an interest-bearing escrow account established by the PHA

FSS Participant

- An escrow credit is based on increases in earned income of the family is credited to this account by the PHA. Instead of rent increasing, the credit is deposited in escrow account
- PHA may make a portion of this escrow available to the family to complete interim goals, i.e., education

FSS Participant

- Families that are ready for home purchase may use these funds to make the downpayment, pay closing costs, use for repairs, etc.
- Some families have received escrow checks as high as \$10-14,000
- FSS mandatory for some PHAs, but not all required to have program

Family Eligibility

- Minimum income requirement
 - Federal minimum wage multiplied by 2000 hours (\$10,300 annual income)
 - Except for elderly or disabled family, welfare assistance may not be considered in determining if family meets minimum income requirement

Family Eligibility

- Full Time Employment (not applicable for elderly and disabled families)
 - currently employed full-time (not less than an average of 30 hours a week)
 - has been continuously so employed for at least one year
 - PHA may determine to what extent interruptions are considered break in continuity

Family Eligibility

- Mortgage Defaults
 - Family is not eligible if any family member has previously received homeownership assistance and defaulted on mortgage
- Except for cooperative members who have already acquired shares, no family member has a present ownership interest in a residence

Family Eligibility

- PHA may also establish additional requirements for family eligibility
- - PHA may establish different eligibility requirements for the minimum income standard or the employment standard; but a family meeting the regulatory requirement is considered to satisfy the income requirement

Pre-Assistance Homeownership Counseling

- Eligible family must attend and satisfactorily complete homeownership counseling program required by PHA
- PHA staff and/or other entity may conduct
- - HUD-approved housing counseling agencies provide counseling services at little or no charge

Pre-Assistance Counseling

- Topics include:
- Home maintenance
- Budgeting and money management
- Credit counseling and credit repair
- Financing Aspects
 - Obtaining financing and loan preapprovals
 - Types of financing, pros and cons of different approaches

Pre-Assistance Counseling Topics

- Topics (continued):
 - How to find a home
 - Advantages of purchasing in area that does not have high concentration of low-income families
 - Information on fair housing, fair housing lending and local enforcement agencies
 - Information about RESPA, state and Federal truth-in-lending laws, how to avoid loans with oppressive terms and conditions

Counseling Con't.

- Pre-assistance counseling may be adapted for needs of individual family

Finding a Home

- PHA may establish time limits for a family to locate a home to purchase and to purchase a home
- Family may choose eligible unit within PHA jurisdiction
 - May go outside jurisdiction only if receiving PHA is administering homeownership and accepting new families

Eligible Units

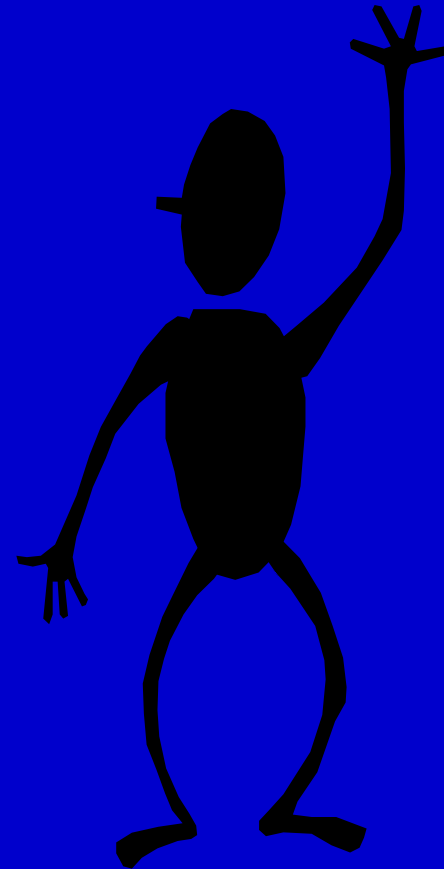
- Unit under construction or already existing at time PHA determines family eligible for homeownership
- One unit property or single dwelling unit in coop or condo
 - Yes: townhouse
 - No: both units of a duplex

Eligible Units

- PHA disapproval of seller of unit:
 - PHA may not approve unit if PHA has been informed (by HUD or otherwise) that seller is debarred, suspended, or subject to limited denial of participation under 24 CFR Part 24

The Housing *Choice* Voucher

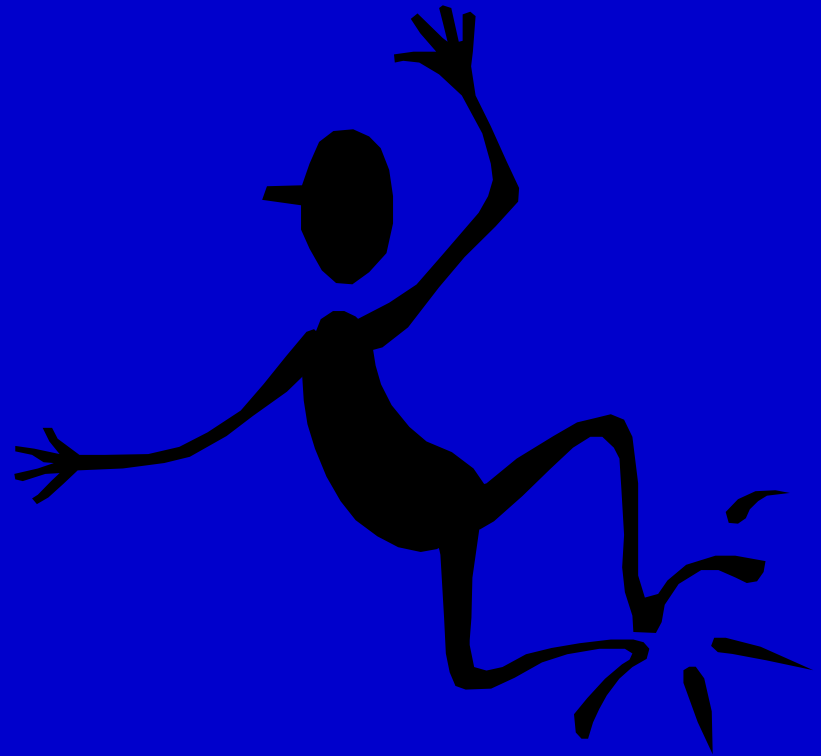
- allows first-time homeowner to use voucher subsidy to meet monthly homeownership expenses



Housing Choice Voucher-HOMEOWNERSHIP

WHAT IS NEEDED ??

- **MOTIVATED
CLIENT**



Housing Choice Voucher-HOMEOWNERSHIP

- Your local PHA is **AUTHORIZED** and willing to **TO DO SECTION 8**
- - voluntary on part of PHA

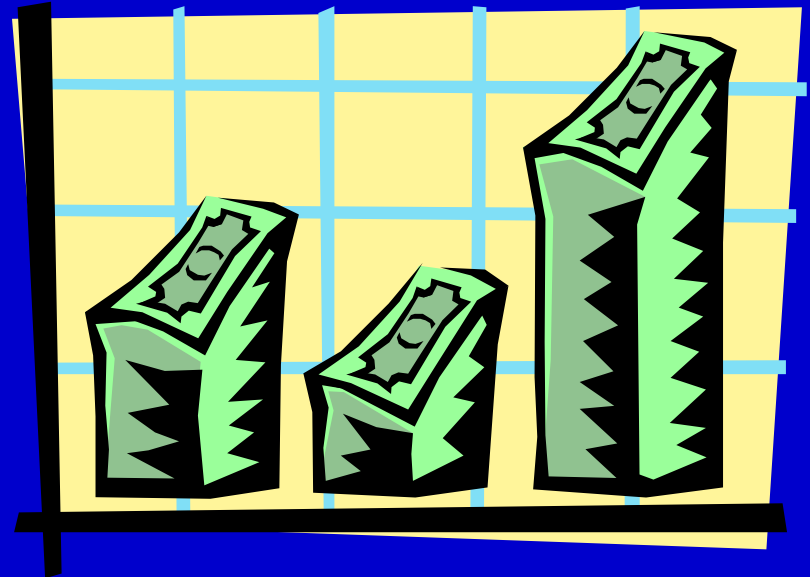


Housing Choice Voucher- HOMEOWNERSHIP

- **AN ENTHUSIASTIC**

AND

**COMMITTED
LENDER**



Housing Choice Voucher- HOMEOWNERSHIP

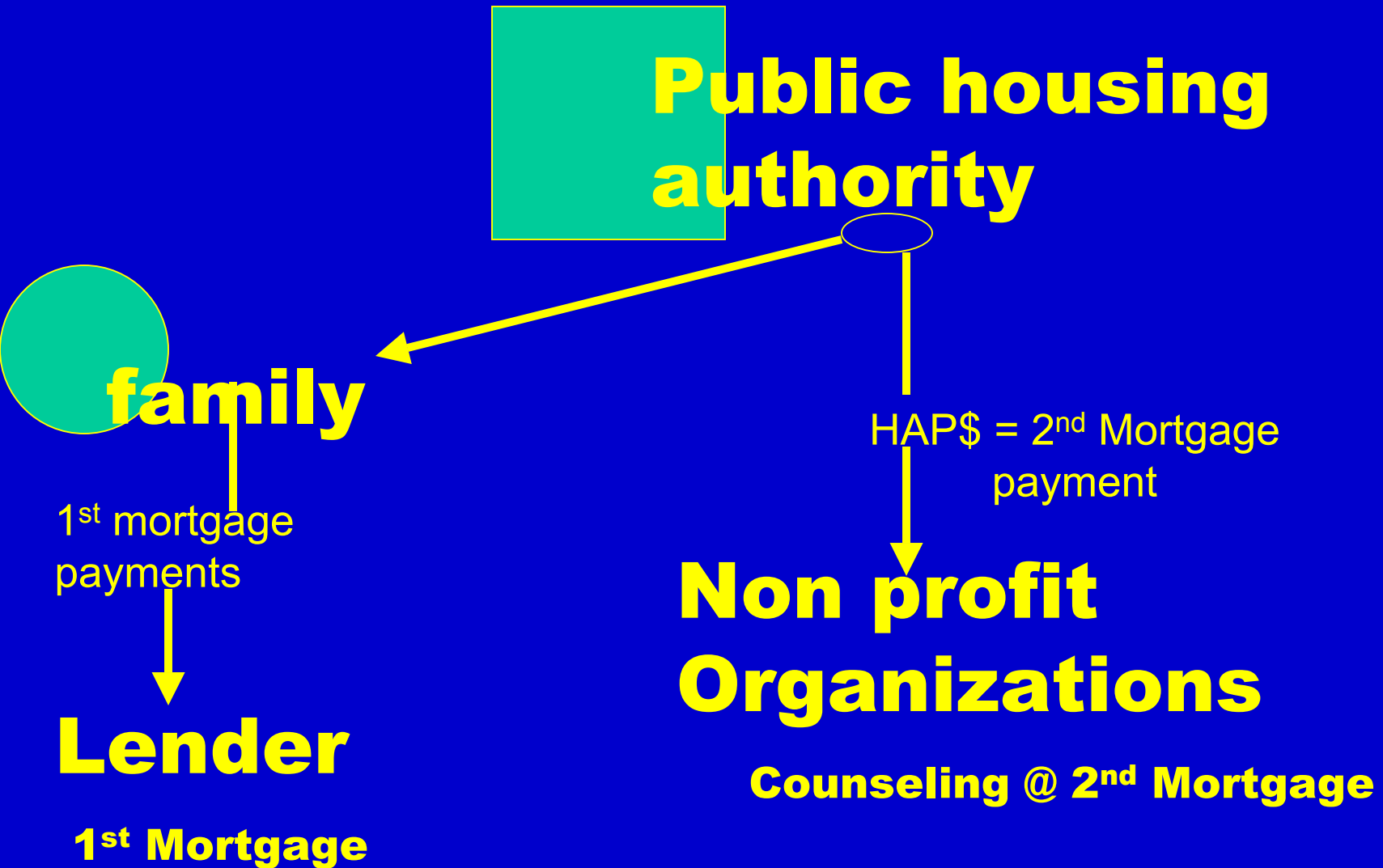
- CREATIVE NON-
PROFIT



Housing Choice Voucher- HOMEOWNERSHIP

**How does the housing CHOICE
voucher Program actually
work?**

Mortgage Structures



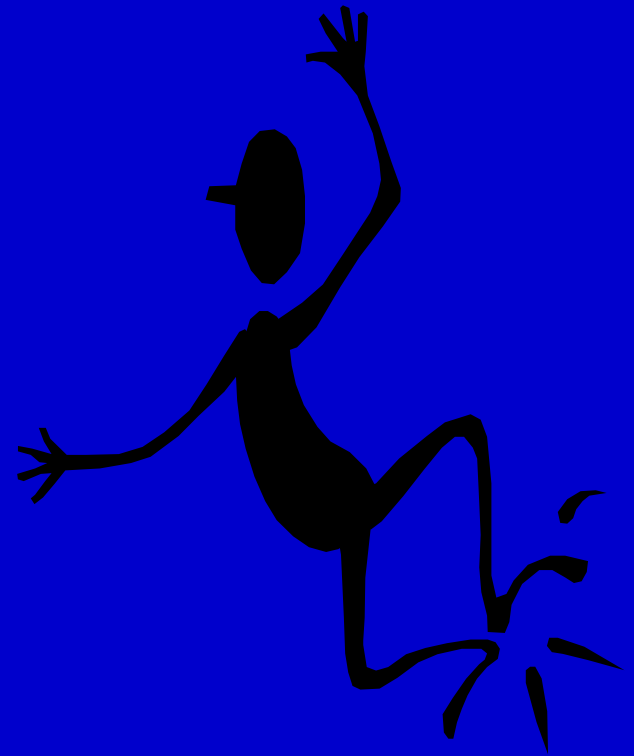
Housing Authority sends HAP to the non profit or family
The amount of the HAP will vary each year as income changes²⁹

Housing Choice Voucher- HOMEOWNERSHIP

- Let's talk about the
**RESPONSIBILITIES
OF THE**

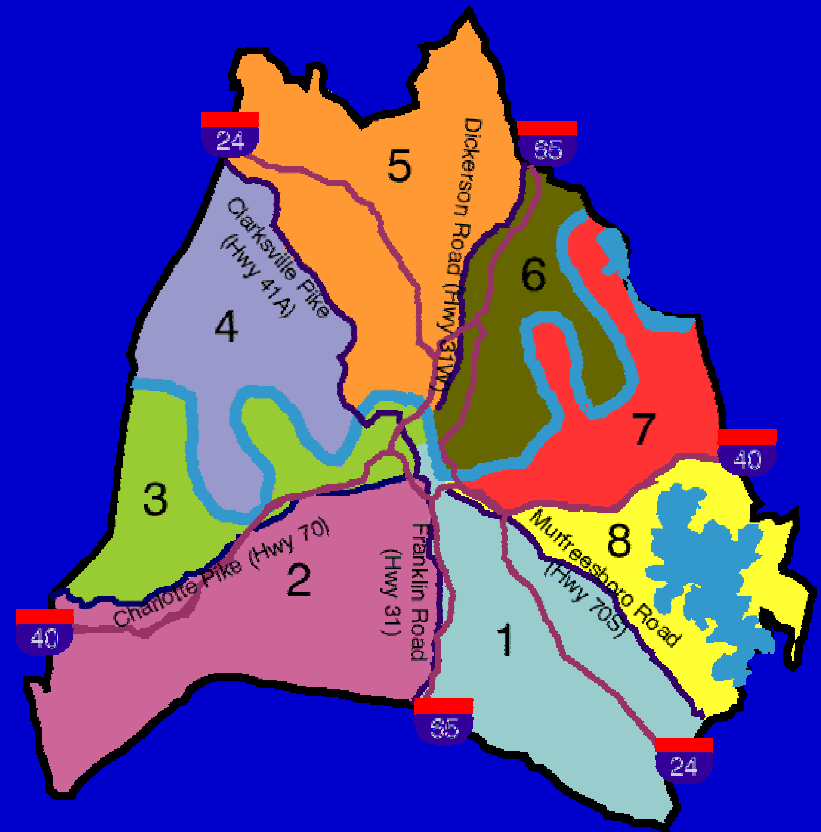
motivated

FAMILY:



Housing Choice Voucher- HOMEOWNERSHIP

- Generally the family chooses a house within the Service Area of the PHA.



Housing Choice Voucher- HOMEOWNERSHIP

- **A family may choose an existing home or one under construction, manufactured home as well as rehab housing;**
- **Family must be first time homebuyer**
- **The PHA requires a minimum of 1% of selling price as participant investment,**

Housing Choice Voucher-HOMEOWNERSHIP

- The non-profit and/or financial agency

and the

- PHA set maximum housing price. no minimum housing price.



Housing Choice Voucher-HOMEOWNERSHIP

The purchase price
is the

- *combined 1st and 2nd mortgages.*



Housing Choice Voucher- HOMEOWNERSHIP

- Participants income must be sufficient to meet mortgage requirements: PHA has flexibility to set *minimum income for family*.
- Employment requirement based on financing source
- Individual resources and subsidy
 - rely on market

Housing Choice Voucher- HOMEOWNERSHIP

- **Some PHAs require families to participate in FSS program. PHA staff refers family to nonprofit**
- **All homebuyers must attend homeownership education classes**
 - **must be approved by PHA**
 - **fast track and/or long term Home Buyer Clubs**

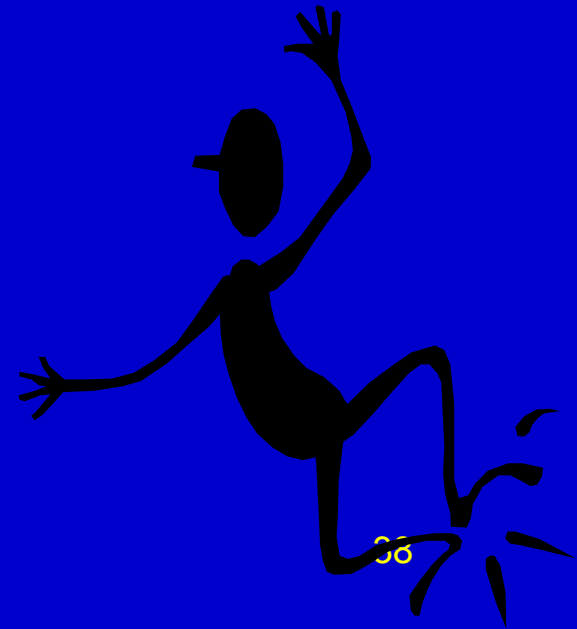
Housing Choice Voucher- HOMEOWNERSHIP

- **Other financing sources**
 - **HAP Payment provides funds for 2nd mortgage.**
 - **HAP payment may be for 10 or 15 years-based on the term of the mortgage....(no term limit for families with disabilities).**
 - **The PHA and Non profit may determine the term of the mortgage, but may not extend the terms.**

Housing Choice Voucher-HOMEOWNERSHIP

**It is the Family's responsibility
to**

- **comply with the terms of mortgage (pay monthly and on time)**
 - **use and occupancy**
 - **family's only residence**
 - **report changes in family composition**
 - **no subletting or leasing**



Housing Choice Voucher- HOMEOWNERSHIP

Summary:

- Family is responsible for finding the house;**
- Satisfying credit issues, if any**
- Determining the amount of first mortgage (by income earned)**
- May receive down payment assistance**

Housing Choice Voucher-HOMEOWNERSHIP

- Now let's talk about the PHA and the payment of the Voucher- the amount of the voucher, etc.



PHA Responsibility

- **Payment standard determines maximum subsidy in voucher program (90% of FMR up to 110% FMR for area.) Payment Standard set by PHA.**



PHA RESPONSIBILITY

- **Payment standard for homeownership family is greater of:**
 - **payment standard at commencement of homeownership assistance**

or



PHA RESPONSIBILITY

- payment standard at most recent reexamination since commencement of homeownership assistance
- *Determined by guidance of PHA*



PHA/HAP Payment

- **Re-verify on the front end**
 - The participant's eligibility, voucher payment, and voucher size should be verified at the first interview and subsequently re-verified at the time a sales contract is written and before closing the purchase. This information is essential in order to determine the participant's realistic buying power.



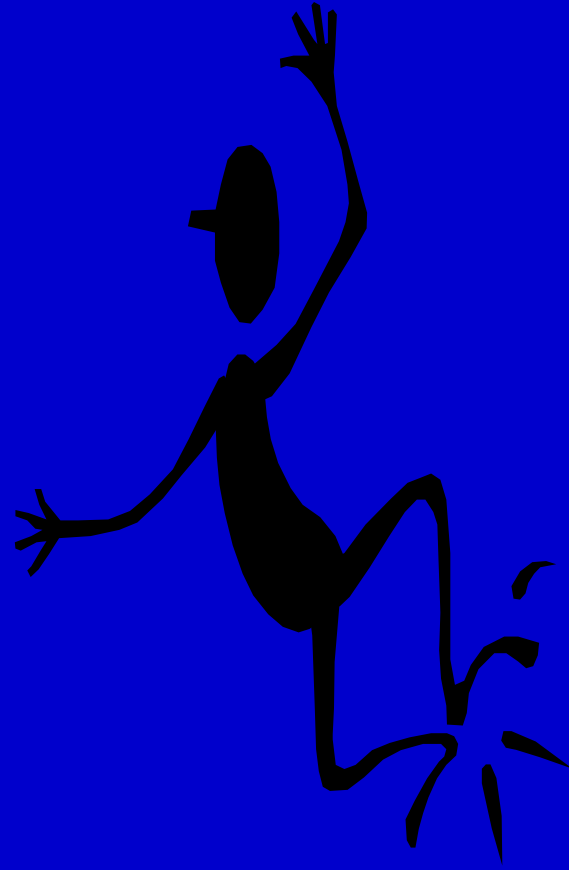
PHA Responsibility

- PHA uses the same voucher program payment standard for homeownership families
 - same subsidy standards
 - no separate “homeownership” payment standard schedule



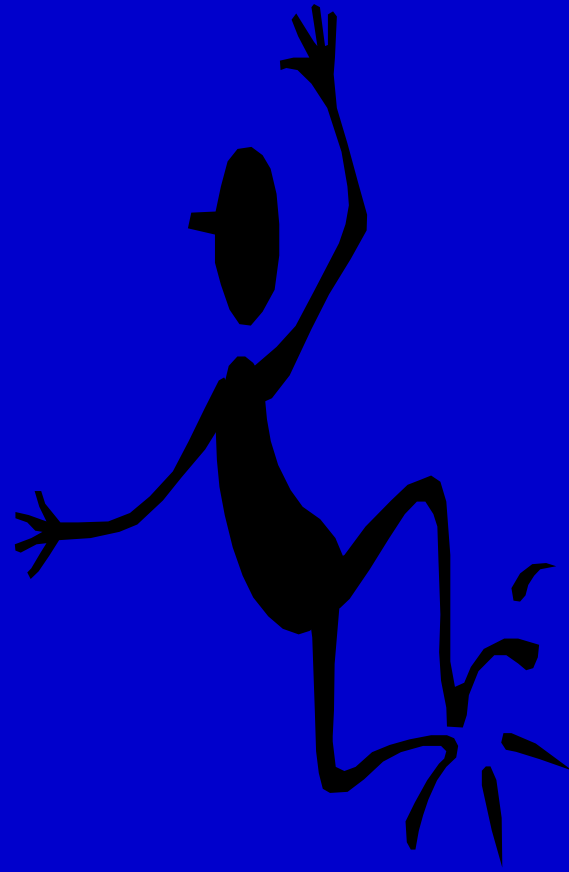
Homeownership Assistance Payments

- **Family total tenant payment is :**
 - **30% of adjusted monthly income**



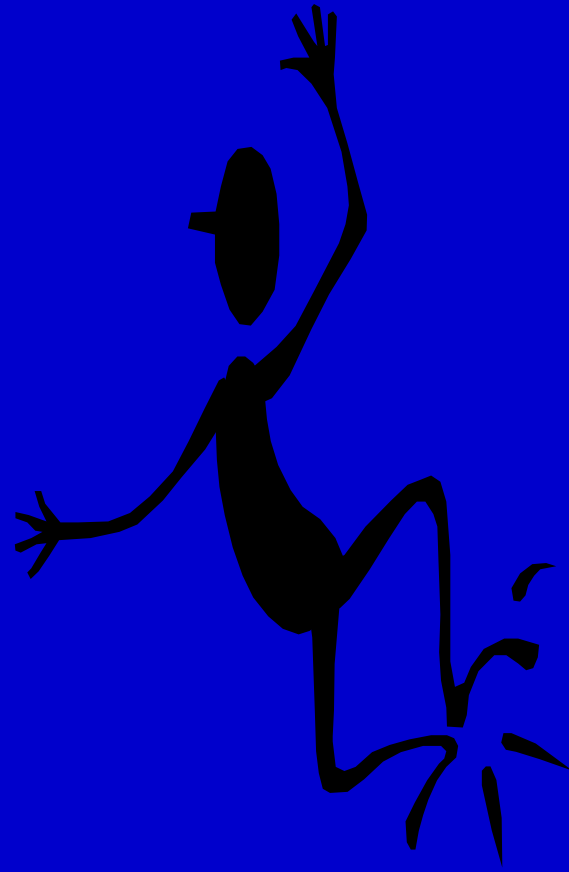
Home Ownership Expenses-Family

- **Mortgage insurance**
- **Real estate taxes**
- **Home insurance**
- **Principal and interest on mortgage debt**
- **PHA allowance for utilities**
- **Land lease payments (mgf. Homes)**



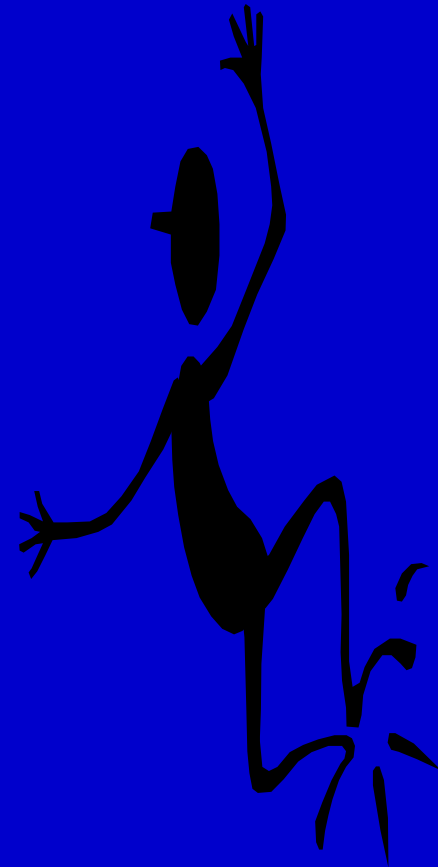
Home Ownership Expenses-**Family**

- **Family is responsible for all homeownership expenses not covered by the HAP payment**



Home Ownership Expenses-**Family**

- If homeownership expenses exceed the payment standard, family pays the difference out-of-pocket in addition to TTP



Two Home Inspections

- **Housing Quality Standards Inspection and Independent Professional Home Inspection**
- **PHA conducts housing quality standard inspection under voucher program**
 - determines current condition is decent, safe, and sanitary
 - no annual HQS inspection requirement once family assumes ownership of house.

Independent Professional Inspection

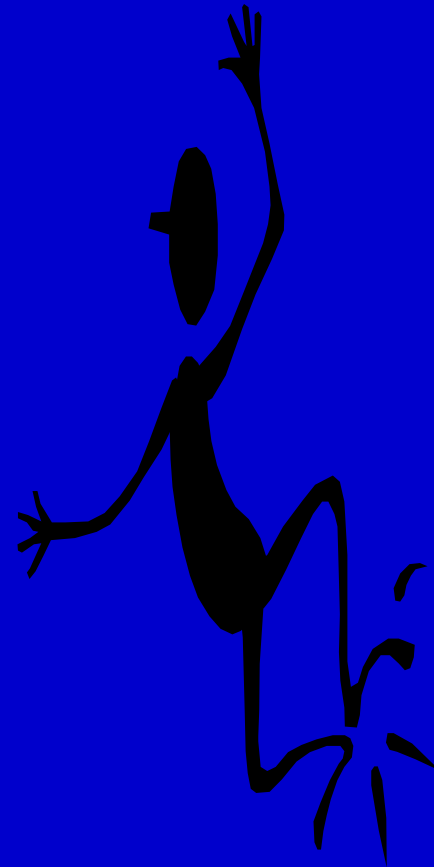
- **Unit must also be inspected by independent professional selected and hired by family**
 - **Assess adequacy and life-span of major systems, appliances, and other structural components**

Independent Professional Inspection

- **Identify potential problems (e.g., need to replace aging heating system)**
- **Requirement for inspection arranged by buyer and satisfactory to buyer is typical contingency clause in contracts of sale, consistent with real estate practice**
- **PHA may disapprove unit on basis of report**

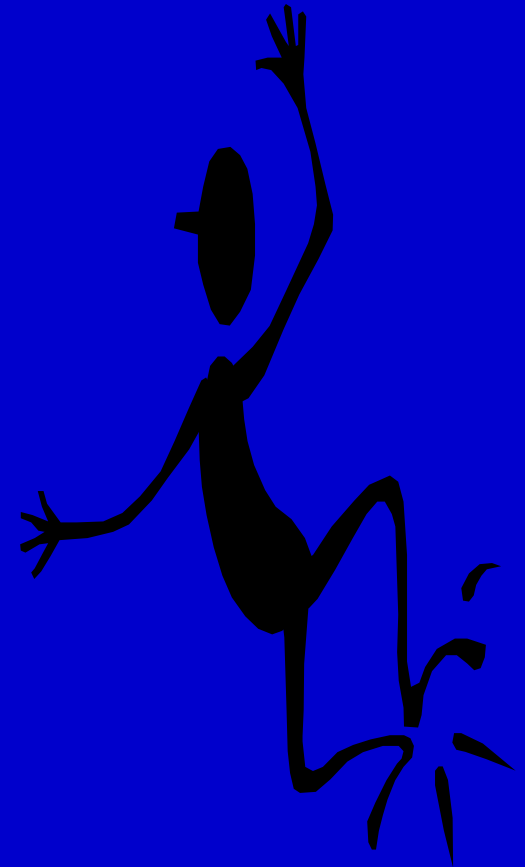
Contract of Sale

- **Family must provide copy of contract of sale to PHA**
 - **Contract of sale must:**
 - **specify price and terms of sale**



Contract of Sale

- **provide for pre-purchase inspection**
 - **buyer satisfaction, buyer not obligated to pay for repairs**
 - **PHA can void the contract under certain conditions.**



Financing- Family/PHA

- **Voucher funds nor PHA's administrative fees may NOT be used to assist with financing costs (downpayment, closing costs)- not when voucher payment is paid monthly for homeownership assistance on behalf of the family.**

Financing- PHA

- PHA may establish:
 - requirements concerning qualifications of potential lenders
 - prohibitions on certain forms of financing
 - for example, balloon payment mortgages
 - requirements concerning terms of financing
 - minimum downpayment
 - requirements or restrictions on other debt secured by home

Financing- PHA/Lender

- PHA may develop partnerships with lenders to assist in obtaining financing, but may not require use of a certain lender-
- 9 different lenders used in demo



Financing- PHA/Lender

- **Voucher funds may NOT be used to assist with financing costs.**



Financing- PHA/ Family/Lender

- Affordability of Purchase
 - All PHA financing or affordability requirements must be described in PHA's administrative plan



Mortgage Credit Analysis Worksheet
Mr. Two Mortgage Home
Mtg. W/out UPMIP \$51,150
Mtg. W/UFMIP \$51,917
Appraised Value of \$86,000
30 yr. Mtg. 6.25 interest rate

| | |
|---|-----------------|
| 10. Statutory Investment Requirements | |
| a. Contract Sales Price | \$85,000 |
| b. Borrower-Paid Closing Costs (from 5c) | \$2,180 |
| c. Unadjusted Acquisition (10a + 10b) | \$87,180 |
| d. Statutory Investment Requirement (10a x 0.03) | \$2,550 |

Mortgage Credit Analysis Worksheet

| | |
|---|-----------------|
| 11. Maximum Mortgage Calculation | |
| a. Lesser of Sales Price (10a) or Value (from 4) | \$85,000 |
| b. Required Adjustments (+/-) | |
| c. Mortgage Basis (11a + 11b) | \$85,000 |
| d. Mort Amt. (11c x LTV Factor 97.75 % or Less) | \$51,150 |

Mortgage Credit Analysis Worksheet

| | |
|---|--------------------|
| 12. Cash Investment Requirements | |
| a. Minimum Down Payment (10c-11d) (This amount must equal or exceed 10d) | \$36,030 |
| b. Prepaid Expenses | \$1,184 |
| c. Discount Points | |
| d. Repairs/Improvements (Non-Financeable) | |
| e. Upfront MIP Paid in Cash | .25 |
| f. Non-Realty and Other Items | |
| g. Total Cash to Close (Sum of 12a thru 12f) | \$37,214.59 |

Mortgage Credit Analysis Worksheet

| | |
|--|-----------------|
| 12. Cash Investment Requirements Cont'd | |
| h. Amount Paid (Earnest Money, etc.) | |
| i. Amount of Gift Funds [Source_____] | |
| j. Assets Available | \$3,860 |
| k. 2nd Mort (if applicable) [Source Section 8_____] | \$37,800 |
| l. Cash Reserves (Sum 12h thru 12k, minus 12g) | \$4,446 |

Mortgage Credit Analysis Worksheet

| | |
|--|----------------|
| 13.Monthly Effective Income | |
| a. Borrower's base pay | \$2,000 |
| b. Borrower's other earnings (explain) | |
| c. Co-borrower's base pay | |
| d. Co-borrower's other earnings (explain) | |
| Attachment A Information | |
| e. Net income from real estate | |
| f. Gross monthly income | \$2,000 |

Mortgage Credit Analysis Worksheet

| 14. Debts & Obligations | Monthly Payment | Unpaid Balance |
|------------------------------------|------------------------|-----------------------|
| a. Total installment debt. | | |
| b. Child support, etc. | | |
| c. Other | | |
| d. Total monthly payments | \$375 | |

Mortgage Credit Analysis Worksheet

| | |
|---|---------------|
| 15.Future monthly payments | |
| a Principal & interest – 1st mortgage | 319.67 |
| b. Monthly MIP | 21.32 |
| c. Homeowners Association Fee | |
| d. Ground rent | |
| e. Principal & interest – 2nd mortgage | |
| f. Hazard insurance | 30.00 |
| g. Taxes & special assessments | 65.00 |

Mortgage Credit Analysis Worksheet

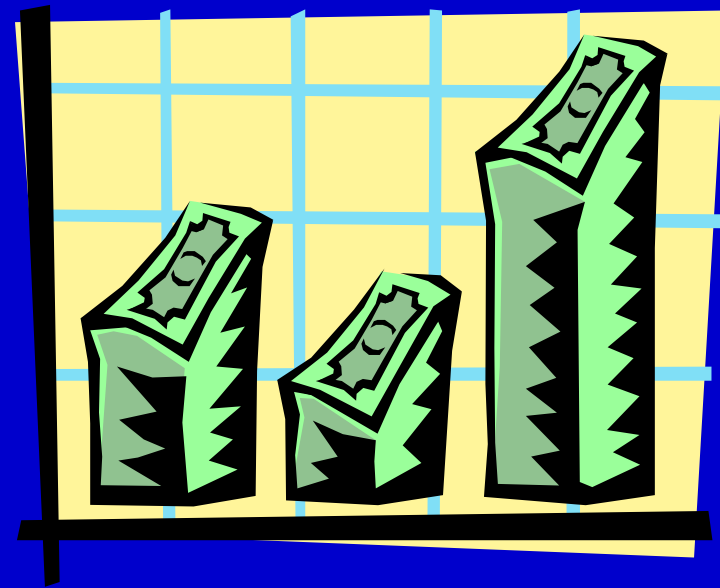
| | |
|---|---------------|
| 15.Future monthly payments | |
| h. Total mortgage payment | 435.00 |
| i. Recurring expenses (from 14d) | 375.00 |
| j. Total fixed payment | 810.00 |

Mortgage Credit Analysis Worksheet

| | |
|--|----------------------------|
| 16.Ratios | |
| a.Loan-to-value (11d divided by 11a) | 60.18 % |
| b. Mortgage Payment-to-income (15h divided by 13f) | 21.80 % |
| c. Total fixed payment-to-income (15j divided by 13f) | 40.5068 % |

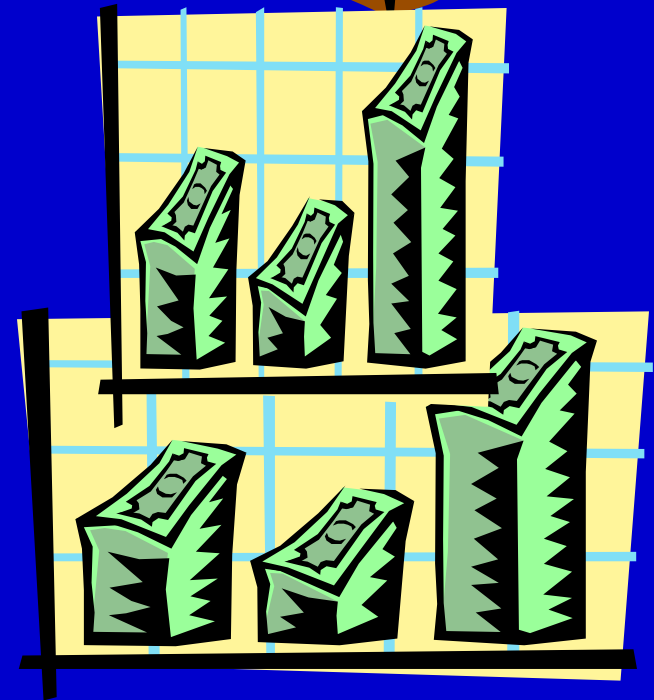
How/WHO to make the HAP Payment

- the HAP payment be sent to the family and the family sends their portion of the mortgage payment and the HAP portion from the PHA in the same envelope.
- When this method is utilized, there should not be a problem finding servicing lenders.



PHA Capacity/Financing

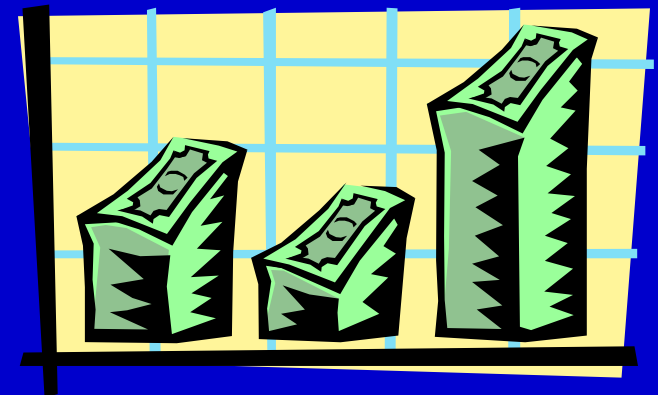
- PHA requires the financing for purchase of a home meets one of the following:



PHA Capacity/Financing

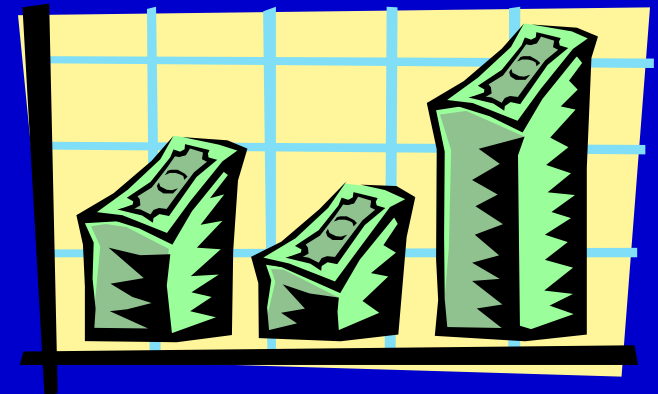
**Option 1: Establishes
minimum downpayment
requirement**

- **3 percent of sale price**
- **Family contribution
towards
downpayment: at
least 1 percent of sale
price comes from
family's personal
resources**



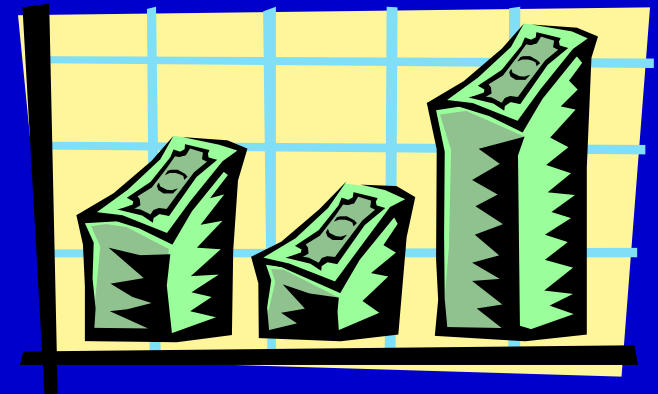
PHA Capacity/Financing

- provided, insured, or guaranteed by state or Federal government



PHA Capacity/Financing

- complies with secondary mortgage market underwriting requirements
- complies with generally accepted private sector underwriting standards



PHA /Family/Oversight

- supply information concerning:
 - refinancing such debt, payment of debt
 - sale or transfer of any interest in home



PHA /Family/Oversight

- comply with other family obligations under the voucher program
 - homeownership expenses

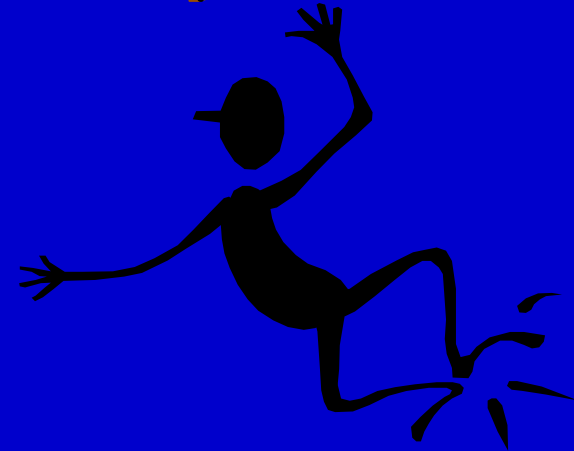


PHA /Family/Oversight

- notice of move-out



- notice of default



PHA /Family/Oversight

- Prohibition on ownership interest on second residence



PHA /Family/Oversight

- During time family receives homeownership assistance, no member may have any interest in any other residential property



PHA /Family/Oversight

- Comply with any additional PHA requirements for continuation of homeownership assistance
 - post-purchase counseling



PHA /Family/Oversight

- **Statement of Homeowner Obligations**
 - written agreement signed by family to comply with all family obligations under homeownership option



PHA /Family/Oversight

- May move with continued voucher assistance (homeownership or rental)

- PHA may not commence continued voucher assistance for occupancy of new unit so long as any family member owns title or other interest in the prior home. Eighteen months must expire between HAP



Family Contribution

- This final rule ***does not*** prohibit seller contributions to the down payment or closing costs. However, the final rule continues to provide that the PHA may establish a minimum equity requirement (generally 1%) from the family's personal resources, types of financing, and qualifications of lenders.

Section 8 amendment-effective date November 18, 2002

- In lieu of paying a monthly homeownership assistance payment on behalf of a family,
- Provide homeownership assistance for the family in the form of a **single grant** to be used toward the downpayment required in connection with the purchase of the home.

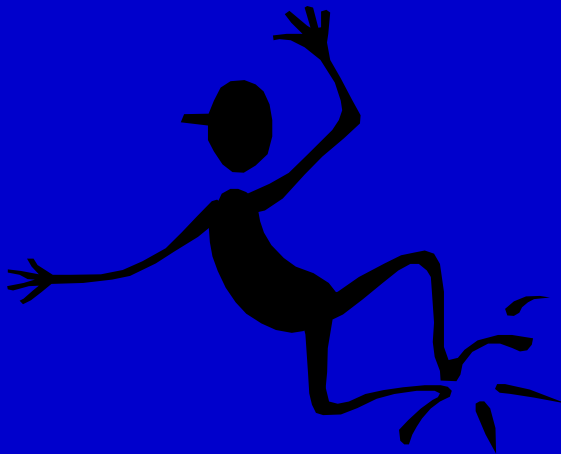
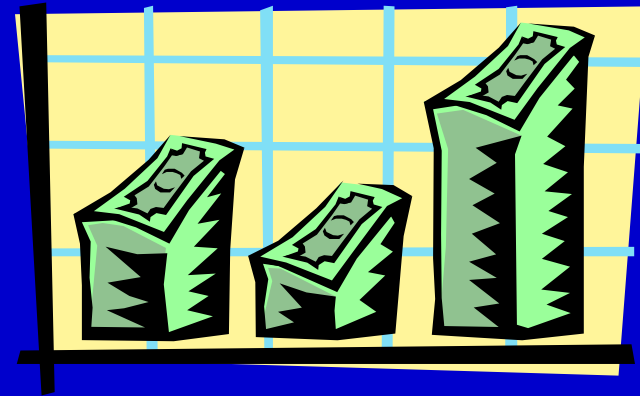
Section 8 amendment-effective date November 18, 2002

- The PHA must define what fees and charges constitute reasonable and customary closing costs by providing such a definition in its administrative plan. If FHA mortgage, such financing is subject to FHA mortgage insurance requirements.

Section 8 amendment-effective date November 18, 2002

The amount of the downpayment grant...may not exceed the amount that is equal to the sum of the assistance payments that would be made during the first year of assistance on behalf of the family.

Successful PHA Model



Section 8 Home Ownership Model

- Typically has 2 mortgages
- 30 year voucher commitment - persons with disabilities
- All of PHA's payment standards are set at 100% of FMR (may increase or decrease)
- Uses HUD's utility standards - applies the relevant standard for the county
 - treats as allowances in calculating homeownership assistance
 - “repair/reserve allowance”

Section 8 Home Ownership Model

- Other financing sources
 - Non-profit provides 2nd mortgage.
 - Additional grants may be available from H.O.M.E. funds, additional non-profit resources, and local government

Family

*The Non-Profit holds an
expiring lien/second
mortgage*

*Traditional relationship
with Lender: the simple
first mortgage is based on
29% of the family's
income – not including
the Section 8 voucher*

**Non-
Profit**



Lender

*The monthly Section
8 voucher goes to
pay down the second
mortgage*

PHA



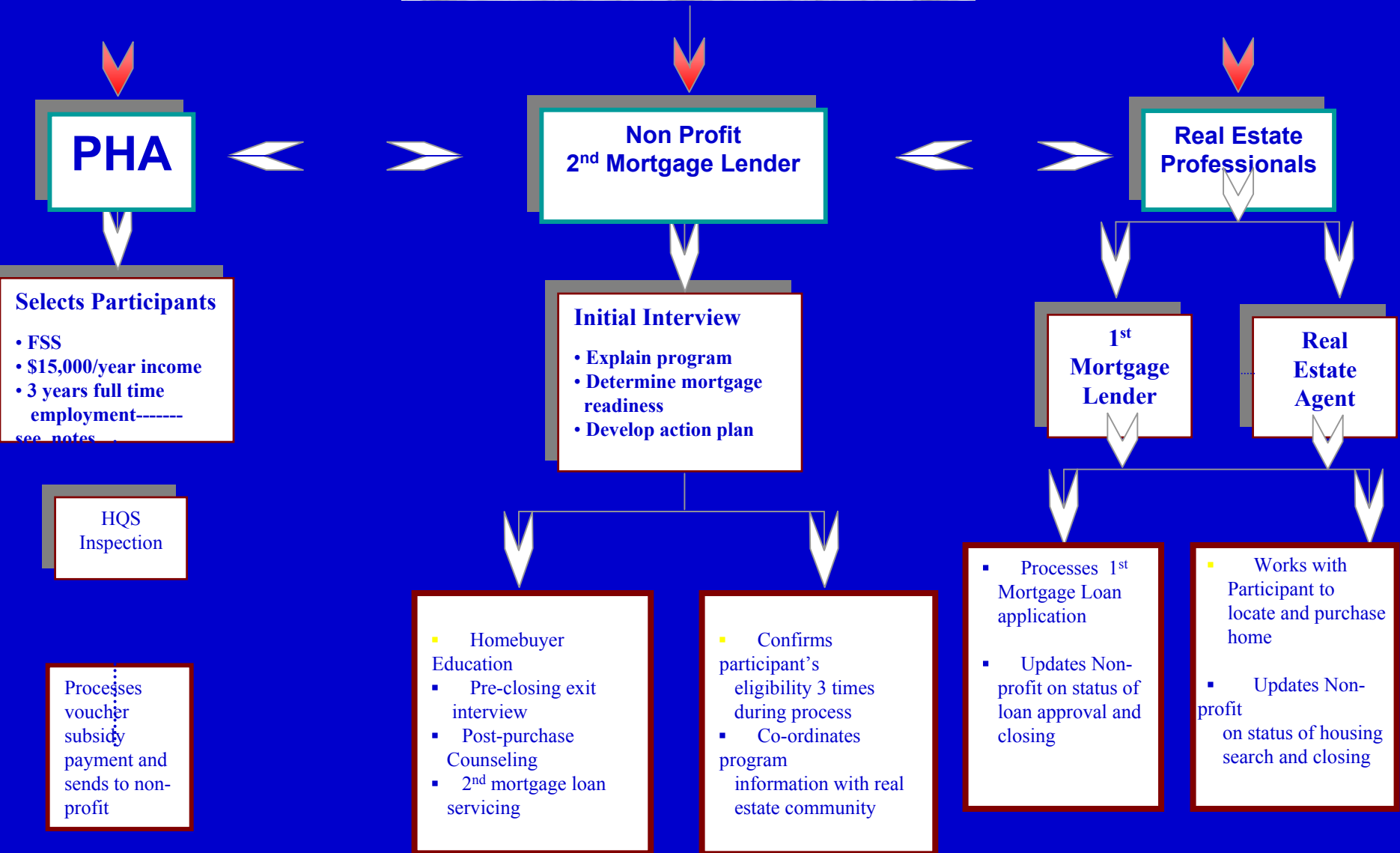
Section 8 Home Ownership Model

| Item | Amount | Payment |
|----------------------------|-------------------|---|
| 1 st Mortgage | \$ 57,500 | \$ 383.00 |
| 30 year amortization @ 7 % | | Paid by participant |
| 2 nd Mortgage | \$ 18,000 | \$ 200.00 |
| 10 year amortization @ 6% | | Paid by PHA |
| Closing Costs | <u>(\$ 3,000)</u> | Subtracted from 2 nd mortgage |
| | \$ 72,500 | Paid by participant |

PHA's demo recommendations

- Nonprofit Organizations
 - Affordable Housing Resources
 - Woodbine Community Organization
 - Neighborhood Re-investment Corporation
- Local Real Estate Professionals
 - Brokers & Agents
 - Title Company
 - Home Inspectors

Section 8 Voucher Holder



Section 8 Home Ownership Model

Non-Profit Relationship

The PHA and Non-Profit partner MUST:

- Clearly know each other,
- Respect each other's capacity,
- Be willing to help each other achieve their common goal...

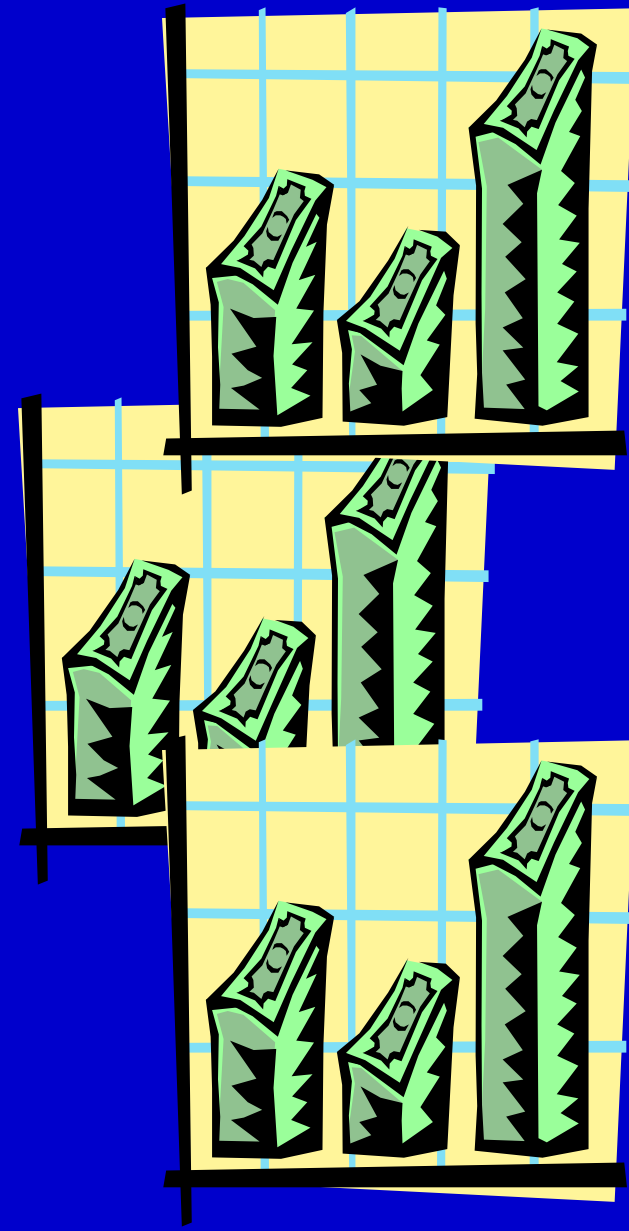
PHA's demo recommendations

- **Pre-AND Post – Purchase Counseling** are critical for the long term success **of the program.**
- Train All HUD and FHA Staff
- Homebuyer Education and Counseling



Participating Lenders in Demonstration Project

- Financial Institutions & Mortgage Companies providing opportunities:
 - SunTrust Bank
 - AmSouth Bank
 - Capital Bank & Trust
 - Columbia National Mortgage
 - Franklin American Mortgage
 - Transland Financial
 - Wells Fargo
 - Fannie Mae
 - Tennessee Housing & Development Agency
 - Others



Voucher Homeownership

- Thank you for your participation in this training.